

Docket No. 090539-GU

**REDACTED**

**MIAMI-DADE COUNTY'S  
PAGES OF TESTIMONY AND EXHIBITS WITH CONFIDENTIAL  
INFORMATION REDACTED**

DOCUMENT NUMBER-DAT

10172 DEC 29 e

FPSC-COMMISSION OF FIN

**DIRECT TESTIMONY OF JOSEPH RUIZ ON BEHALF OF  
MIAMI-DADE WATER AND SEWER DEPARTMENT**

1 Q: ARE YOU AWARE THAT FCG ADVISED COMMISSION STAFF IN ONE OF ITS  
2 JANUARY 9, 2009 RESPONSES TO A STAFF INTERROGATORY THAT MIAMI-  
3 DADE-BYPASS COSTS WOULD BE CONSIDERABLY HIGHER THAN THE COST  
4 YOU HAVE PRESENTED?

5 A: Yes. FCG advised Staff that Miami-Dade cost to bypass the Alexander Orr Water Treatment  
6 Plant was ██████████, to bypass the Hialeah plant was ██████████; and to bypass the Black  
7 Point plant was \$██████████. These cost estimates are excessive and were self-serving at the  
8 time they were provided by FCG to Commission Staff as it is clear that in January 2009, FCG  
9 and Staff had been discussing whether the contract rates were too low and Staff's  
10 encouragement to FCG to negotiate higher rates from Miami-Dade, as reflected in Commission  
11 Staff's statement to FCG on January 15, 2009, in Exhibit \_\_\_\_\_ (BPA-1 at page 2.)

12 Q: WHO REQUESTED THE MAY 21, 2009 MEETING WHICH YOU REFERRED TO  
13 EARLIER?

14 A: FCG.

15 Q: AT THE MAY 21, 2009 MEETING, WHO DID YOU MEET WITH AND WHAT DID  
16 THEY TELL YOU?

17 A: Jack Langer, Greg Hicks, my assistant Vivian Guzman and I met with Melvin Williams,  
18 Carolyn Bermudez and Errol West. Mr. Williams said the month to month contract extension  
19 that Miami-Dade and FCG had agreed to pending Commission action on the 2008 Agreement  
20 could not continue under the contract rates. Mr. Williams also said that in order to obtain PSC  
21 approval of the special contract, the rates must cover FCG's cost of providing service to the  
22 Water and Sewer Department.

23 Q: DID MR. WILLIAMS IDENTIFY FCG'S COST OF PROVIDING SERVICE TO  
24 THE DEPARTMENT?

25 A: Not in my mind. The letter that Mr. Williams gave us included revised rates that reflected an

**DIRECT TESTIMONY OF JACK LANGER ON BEHALF OF**  
**MIAMI-DADE WATER AND SEWER DEPARTMENT**

1 A. No. FCG never gave me or anyone at Miami-Dade any incremental cost study or  
2 analysis. I only saw the one-page chart showing the cost comparison between 1999  
3 and 2008 which I have included as Exhibit \_\_ (JL-9). Also, in response to a staff data  
4 request, FCG stated these represent average costs, not incremental costs.

5 **Q. HOW DID FCG ARRIVE AT THE AMOUNTS STATED AS "ACTUAL 2008"**  
6 **COST OF SERVICE?**

7 A. Based on FCG's answers to discovery requests, Miami-Dade recently learned that  
8 FCG provided this information to PSC Staff on January 9, 2009 in Response to Staff's  
9 Second Data Request in Docket No. 080672-GU.

10 **Q. I SHOW YOU EXHIBIT \_\_ (JL-10) TITLED "FCG CONFIDENTIAL**  
11 **RESPONSE TO COMMISSION STAFF DATA REQUEST IN DOCKET**  
12 **080672-GU." IS THIS THE DISCOVERY RESPONSE TO WHICH YOU ARE**  
13 **REFERRING?**

14 A. Yes, this exhibit includes a copy of the January 9, 2009 FCG response to staff's data  
15 request.

16 **Q. IS THE INFORMATION IN EXHIBIT \_\_ (JL-10) CORRECT?**

17 A. No. For example, FCG states that the estimated cost to by-pass FCG services is  
18 approximately \$ [REDACTED] for the Orr Plant. I do not know where FCG received this  
19 information from but it is totally inflated and absolutely incorrect. I estimate the  
20 bypass cost for Orr to be \$650,000. FCG also suggests that the cost to bypass the  
21 Hiialeah Plant is approximately \$ [REDACTED] which is also highly inflated. I estimate  
22 the bypass cost for the Hiialeah Plant to be approximately \$1.2 million. FCG also  
23 states that it would cost \$ [REDACTED] for Miami-Dade to bypass the South Dade Plant.  
24 Again, I believe this amount is wrong. FCG never stated the basis for these amounts  
25 and FCG did not share the information with Miami-Dade for verification or even for

DIRECT TESTIMONY OF JACK LANGER ON BEHALF OF  
MIAMI-DADE WATER AND SEWER DEPARTMENT

1 SERVE THE COUNTY?

2 A. Yes. For the Orr Plant, FCG owns a 4-inch gas line that is about 6000 feet in length  
3 from the point it receives the County's gas at FGT's gate station to the meter  
4 locations serving the Orr Plant.

5 **Q. PLEASE PROVIDE THE COMMISSION WITH THE LENGTH AND**  
6 **INVESTMENT IN THE INCREMENTAL PIPE SERVING MIAMI-DADE.**

7 A. Yes. The original pipe to the Orr Plant was about 3700 feet and was installed by  
8 Miller Gas pursuant to the 1986 Miller Gas Agreement with Miami-Dade, which I  
9 have identified as Exhibit \_\_\_\_ (JL-1), earlier in my testimony. The cost to install the  
10 original 3,700 feet of pipe was between \$110,000 and \$130,000. This equates to  
11 approximately \$35.13 per foot which is in line with 1986 pricing for this size gas line.  
12 The entire gas line is dedicated to serving only the County's Orr Plant. FCG suggests  
13 that it has invested \$ [REDACTED] in this line which appears excessive. I also recently  
14 learned that on February 27, 2009, one residential customer was connected to that gas  
15 line. The consumption for the residence is approximately 10-15 therms per month  
16 and by comparison has no real effect on Miami-Dade or FCG since the consumption  
17 at Orr is approximately 350,000 therms per month.

18 The pipe to the Hialeah-Preston Plant from the FCG system is very short -  
19 approximately 200 feet from FCG's distribution system to the Hialeah Plant. I  
20 estimate that the capital cost of the Hialeah pipe was approximately \$25,000,  
21 dramatically less than the \$ [REDACTED] which FCG claims as its investment in the pipe in  
22 FCG's response to a Commission Staff inquiry. The pipe to the South Dade  
23 Wastewater Treatment Plant cost \$300,000 and was paid in full by Miami-Dade in  
24 "Aid of Construction" pursuant to the 1998 Agreement. Therefore, FCG has no  
25 capital investment in the pipe unless a portion was replaced without the knowledge of

Responses to FPSC Staff Second Data Request  
Docket No. 080672-GU  
January 9, 2009

CONFIDENTIAL

*Privileged and Confidential*

Responses to Question 4

*Q: What percentage of FCG total load does the Miami/Dade load subject to this contract represent?*

A: [REDACTED]

*Q: What is the potential new load associated with the six EMD engines?*

A: [REDACTED]

*Q: What would it cost Miami/Dade to bypass FCG and connect directly to FGT?*

A: FCG does not have this information.

*Q: What is the dollar amount that of fixed costs would be collected from the other ratepayers if Miami/Dade did bypass FCG?*

A: [REDACTED]

*Q: Wouldn't the loss of Miami/Dade reduce costs to the remainder of the ratepayers by the amount currently collected through the CRA?*

A: [REDACTED]

Attachment 1

*Q: How were the numbers in column 2 derived?*

A: [REDACTED]

*Q: Does the last column represent the system average cost or the average cost to serve commercial industrial customers similar to Miami/Dade?*

Responses to FPSC Staff Second Data Request  
Docket No. 080672-GU  
January 9, 2009

DOCKET NO. 090539-GU  
FCG'S CONFIDENTIAL RESPONSE TO MIAMI-DADE  
COUNTY'S FIRST POD, ITEM NO. 2  
PAGE 12 OF 40

A: [REDACTED]

Q: Why is the cost for the Alexander Orr plant less (on a percentage basis of the 'surveillance report' number) than the Hialeah plant?

A: [REDACTED] for

Q: Provide FCG's total customer count and number of commercial/industrial customers.

A: [REDACTED] with

Q: Of total FCG commercial/industrial customer load, what percentage does Miami-Dade represent?

A: [REDACTED]

Q: Provide FCG's estimate of Miami-Dade's cost to bypass FCG services.

A: [REDACTED]

080672-GU

	Per 1999 Rate Design	Per Nov 08 Surveillance Report	Ref	Nov 2008 12 months expenses	Ref	Customer Cost Alloc Factor	Estimated Split of Taxes
<b>CONFIDENTIAL</b>							
<b>Miami Dade Water and Sewer Water Plant - Alexander Orr Plant of Service and Rate Design</b>							
Description	Total	Total					
OG&M Expenses	\$3,500	\$87,871		[REDACTED]			
Depreciation	\$11,230	\$45,503		[REDACTED]			
Taxes Other Than Income	\$10,302	\$12,094		[REDACTED]			
Rate Tax @ 5.5%	\$2,943	\$2,535		[REDACTED]			
Federal Tax @ 34.00%	\$15,674	\$14,367		[REDACTED]			
Sub-total	\$43,648	\$162,171		[REDACTED]			
Imputed Return on Investment ** (Rate base x ROR)	\$30,399	\$28,502		[REDACTED]			
Total Incremental Cost of Service	\$74,048	\$190,673		[REDACTED]			
Estimated Annual Volume (therms)	4,243,010	3,500,000		[REDACTED]			
Incremental Cost Rate	\$0.01745	\$0.05448		[REDACTED]			
<b>Miami Dade Water and Sewer Water Plant - Hialeah Water Plant and Black Point Cost of Service and Rate Design</b>							
Description	Total	Total					
OG&M Expenses	\$6,500	\$87,671		[REDACTED]			
Depreciation	\$24,164	\$45,503		[REDACTED]			
Taxes Other Than Income	\$10,648	\$12,094		[REDACTED]			
Rate Tax @ 5.5%	\$6,331	\$2,535		[REDACTED]			
Federal Tax @ 34.00%	\$33,726	\$14,367		[REDACTED]			
Sub-total	\$81,370	\$162,171		[REDACTED]			
Imputed Return on Investment *** (Rate base x ROR)	\$65,409	\$61,326		[REDACTED]			
Total Incremental Cost of Service	\$146,779	\$223,497		[REDACTED]			
Estimated Annual Volume (therms)	3,159,440	2,400,000		[REDACTED]			
Incremental Cost Rate	\$0.04646	\$0.09312		[REDACTED]			

**CONFIDENTIAL**

DOCKET NO. 090539-GU  
 FCG'S CONFIDENTIAL RESPONSE TO MIAMI-DADE COUNTY'S FIRST POD, ITEM NO. 2  
 PAGE 36 OF 40

Imputed Rate of Return 7.85% 7.36%

November 2008 12 months expenses using the Surveillance Report calculations (See attached document)  
 Imputed Customer Cost allocation factors from order PSC-04-0128-PAA-GU dated 2/9/04 pg 93  
 Imputed rate of return from order PSC-04-0128-PAA-GU dated 2/9/04 pg 84

DOCUMENT NUMBER - DATE  
 00712 JAN 28 8  
 FPSC-COMMISSION CLERK

Docket No. 090539-GU  
 FCG Confidential Response to Comm.  
 Staff Data Request in Docket 080672-GU  
 Exhibit JL-10, page 3 of 3

**FLORIDA CITY GAS**  
**Cost To Provide Gas Transportation Service**  
**To**  
**Miami-Dade County Water & Sewer Department**

Line No	Description (a)	Total FCG System [1] (b)	Miami-Dade			Source & Reference For Cols (c) & (d) (f)
			Orr Plant (c)	Hialeah Plant (d)	Total Miami-Dade (e)	
1	Original Cost Investment	\$275,366,528				Company response to M/D data request
2	Accumulated Provision for Depreciation	-125,575,705	-176,598	-379,983	-556,581	Allocated on Gross Plant
3	Net Plant	\$149,790,823	\$210,652	\$453,256	\$663,908	
4	Rate Base	\$157,842,235	\$221,975	\$477,619	\$699,594	Allocated on Gross Plant
5	O&M Other Than Cost of Gas	\$20,968,691	\$29,488	\$63,450	\$92,938	Allocated on Gross Plant
6	Annual Depreciation Expense	\$18,681,208	\$26,272	\$56,528	\$82,799	Allocated on Gross Plant
7	Taxes Other Than Income Taxes	\$2,568,721	\$3,612	\$7,773	\$11,385	Allocated on Gross Plant
8	Return on Rate Base @ 5.06%		\$11,232	\$24,168	\$35,399	Line 4 x 5.06%
9	State Taxes @ 5.50%		\$618	\$1,329	\$1,947	Line 8 x 5.50%
10	Federal Taxes @ 34.00%		\$3,609	\$7,765	\$11,374	Ln 8 - Ln 9 x 34.00%
11	Total Annual Direct Costs		\$74,831	\$161,012	\$235,843	Sum of lines 6 through 10
12	Variable Costs		\$29,488	\$63,450	\$92,938	Line 5.
13	Annual Transportation Volumes - Therms		3,800,000	3,300,000		3 Year Average Deliveries
14	True Incremental Rates - \$/Therm [2]		\$0.0078	\$0.0192		Line 12 / Line 13
15	Direct Cost Rates - \$/Therm [3]		\$0.0197	\$0.0488		Line 11/ line 13

Footnotes:

- [1] "FPSC Adjusted" values from the Company's "Earnings Surveillance Report for the quarter ended June 2010.
- [2] The rate for the recovery of the Company's true incremental or variable costs (Incremental Rates).
- [3] The rate for the recovery of all costs associated with the Company's dedicated investment for service to Miami-Dade.

FRED SAFFER & ASSOCIATES, INC. Financial, Engineering & Management Consultants	Client No 8700	File Name Miami-Dade Costs	Docket No 090539-GU	Page 1 of 1
	Project No 8701	Date 20 Dec 10		

Project No: 0702237-GU  
 FCG Costs to Provide Gas Transportat  
 Service to Miami-Dade Water and Sewe  
 Department  
 Exhibit FRS-3, page 1 of 1



DIRECT TESTIMONY OF BRIAN P. ARMSTRONG

1 Q. DO YOU BELIEVE THESE FACTS ALSO SHOULD BE CONSIDERED  
2 IN LIGHT OF THE COMPETITIVE RATE ADJUSTMENT  
3 MECHANISM WHICH FCG HAS APPLIED TO THE 2008  
4 AGREEMENT?

5 A. Yes. These inflated costs of service numbers suggest that the \$110,000 or so of  
6 annual revenue received by FCG from Miami-Dade under the 2008 Agreement  
7 rates, which have not changed from the 1998 Agreement rates, is \$304,000  
8 below FCG's alleged \$414,000 cost of service. Yet, in FCG's response to  
9 Commission Staff interrogatory 4 dated December 30, 2008, FCG states that it  
10 recouped [REDACTED] from FCG's other customers under the CRA mechanism in  
11 2008, or about \$ [REDACTED] more than FCG's alleged cost of serving Miami-Dade.  
12 When added to the \$110,000 collected from Miami-Dade under the 1998  
13 Agreement rates, FCG has collected more than \$ [REDACTED] in one year for  
14 providing Miami-Dade access to two miles of its pipe. This is more than twice  
15 the highest cost of providing such service alleged by FCG to date and perhaps  
16 seven times higher than Miami-Dade witness Saffer's cost of service calculation.  
17 This is highly inequitable for FCG's customers and an unjustified windfall to  
18 FCG.

19 Q. SHOULD THE FACT THAT FCG HAS BEEN RECOVERING LARGE  
20 SUMS FROM ITS OTHER CUSTOMERS FOR YEARS UNDER THE  
21 COMPETITIVE RATE ADJUSTMENT MECHANISM BE  
22 CONSIDERED BY THE COMMISSION IN THIS PROCEEDING?

23 A. Yes. FCG admits that it has been recovering as much as \$ [REDACTED] through the  
24 Competitive Rate Adjustment or "CRA" mechanism as it has been applied to the  
25 1998 Agreement. Apparently, FCG has been recovering this revenue on the

DIRECT TESTIMONY OF BRIAN P. ARMSTRONG

1 to serve Miami-Dade's Hialeah plant as \$ [REDACTED] and the original cost to serve  
2 Miami-Dade's Alexander Orr plant as \$ [REDACTED]. Miami-Dade witness Langer  
3 calls the accuracy of these alleged amounts of FCG investment in the  
4 incremental facilities serving Miami-Dade into question. FCG has not produced  
5 for Miami-Dade any copies of continuing property records, bills, construction  
6 contracts, contributed property records, cash or in kind, or any other documents  
7 to substantiate these figures, nor to establish their depreciated book value.

8 FCG should be required to produce these documents to substantiate these  
9 alleged investments before they are included by this Commission in the  
10 calculation of FCG's incremental cost to serve Miami-Dade.

11 **Q. HAS FCG PROVIDED MIAMI-DADE THE INFORMATION**  
12 **NECESSARY TO DETERMINE THE NET PLANT IN SERVICE VALUE**  
13 **OF FCG FACILITIES NECESSARY TO SERVE MIAMI-DADE?**

14 **A.** No. FCG has informed Miami-Dade in response to interrogatory number 18  
15 that FCG

16 "does not depreciate individual assets, but rather assets are  
17 depreciated as a class based upon additions and removals  
18 from service. Since individual assets are not individually  
19 depreciated, it is not possible to state whether the pipelines  
20 to the three Miami-Dade plants have been fully depreciated  
21 or not."

22 FCG's assertion that it is "not possible" to determine the depreciated value of the  
23 incremental pipes serving Miami-Dade is not true. While FCG failed to identify  
24 the original cost of such pipes when Miami-Dade asked for such information in  
25 interrogatory number 21, FCG did provide its alleged original cost information

DIRECT TESTIMONY OF BRIAN P. ARMSTRONG

1 Q. MIAMI-DADE'S INTERROGATORY NUMBER 6 TO FCG ASKED FCG  
2 TO "DESCRIBE OR EXPLAIN THE DUE DILIGENCE FCG AND AGL  
3 [RESOURCES] PERFORMED IN DETERMINING THE CONTRACT  
4 RATES IN THE 2008 AGREEMENT." CAN YOU ADVISE THE  
5 COMMISSION AS TO FCG/AGL'S RESPONSE AND HOW SUCH  
6 RESPONSE IS RELEVANT IN THIS PROCEEDING?

7 A. Yes. A copy of FCG/AGL's response to Miami-Dade's interrogatory 6 is  
8 provided in Exhibit \_\_\_ (BPA-3) under cover page titled, "FCG/AGL Response  
9 Concerning Due Diligence Performed Prior To Signing 2008 Agreement." In  
10 pertinent part, FCG's response is as follows:

11 "The contract executed in 2008 extended the overall terms  
12 and conditions of service from the original contract, subject  
13 to the review and approval of the PSC prior to becoming  
14 effective. At the time, no further analysis on the impact on  
15 the general body of ratepayers was deemed necessary as the  
16 contract impact through the CRA had been reviewed and  
17 approved annually by the PSC."

18 I am truly surprised by this response. Based upon my 25 years of experience  
19 advising and managing both public and private utilities, it is inconceivable that  
20 FCG would exercise such nonchalance in entering a long-term gas  
21 transportation agreement with its largest natural gas transportation customer.  
22 Please recall that at the time the 2008 Agreement was being negotiated, FCG  
23 was aware that it was recovering more than \$ [REDACTED] from other FCG customers  
24 through the Competitive Rate Adjustment or "CRA" associated directly with the  
25 2008 Agreement. FCG surely had an obligation to perform thorough due